State of Iowa - Return on Investment Program / IT Project Evaluation

SECTION 1: PROPOSAL

Project Name: Electronic Tax Administration   Date: 10/01/00 Revised 12/22/00

Agency Point of Contact for Project: Richard Jacobs—515.281.3488

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Executive Sponsor (Agency Director or Designee) Signature: G.D. Bair

Question	Yes	No
Is this project necessary for compliance with a Federal standard, initiative, or statute? (If "Yes," cite specific requirement, attach copy of requirement, and explain in Proposal Summary)	❑ Yes	X No
Is this project required by State statute? (If "Yes," explain in Proposal Summary)	❑ Yes	X No
Does this project meet a health, safety or security requirement? (If "Yes," explain in Proposal Summary)	❑ Yes	X No
Is this project necessary for compliance with an enterprise technology standard? (If "Yes," explain in Proposal Summary)	❑ Yes	X No
Does this project contribute to meeting a strategic goal of government? (If "Yes," explain in Proposal Summary)	X Yes	❑ No
Is this a "research and development" project? (If "Yes," explain in Proposal Summary)	X Yes Portion of Project	❑ No

PROPOSAL SUMMARY: *SEE NEXT PAGE*

In written detail, explain why the project is being undertaken and the results that are expected. This includes, but is not limited to, the following

1. A pre-project (before implementation) and a post-project (after implementation) description of the system or process that will be impacted.

2. A summary of the extent to which the project provides tangible and intangible benefits to either Iowa citizens or to State government. Included would be such items as qualifying for additional matching funds, improving the quality of life, reducing the government hassle factor, providing enhanced services, improving work processes, complying with enterprise technology standards, meeting a strategic goal, avoiding the loss of matching funds, avoiding program penalties/sanctions or interest charges, avoiding risks to health/security/safety, complying with federal or state laws, etc.

3. A summary that identifies the project stakeholders and how they are impacted by the project.

Section 1- Proposal Summary

Overview

Development and deployment of applications and infrastructure to support the department's *Electronic Tax Administration* program (ETA) is the objective of this request. Such electronic access directly supports and in fact is a key ingredient of Governor Vilsack's and Lieutenant Governor Pederson's goal of providing government information and services when and where they are convenient to Iowans.

The Department of Revenue and Finance anticipates that during FY 01 the department will successfully deploy several applications which will allow Iowans to remain better informed and to reduce their cost in doing business with the state. Building on these efforts and in conjunction with other improvements planned for the department's electronic infrastructure, the agency believes it will be correctly positioned to begin in FY 02 to expand these services and to begin to offer several new forms of electronic access and filing for Iowa taxpayers.

The *Electronic Tax Administration* program offers the agency an opportunity to clearly translate the vision that exists for deploying electronic services into a set of specific projects. A summary table (attached) demonstrates how the ETA initiatives begun in FY 01 are directly related and support the initiatives for which funding is requested for FY 02. This table is also of benefit in the final section of the proposal when analysis of the benefits of the various features of the FY 02 program are described.
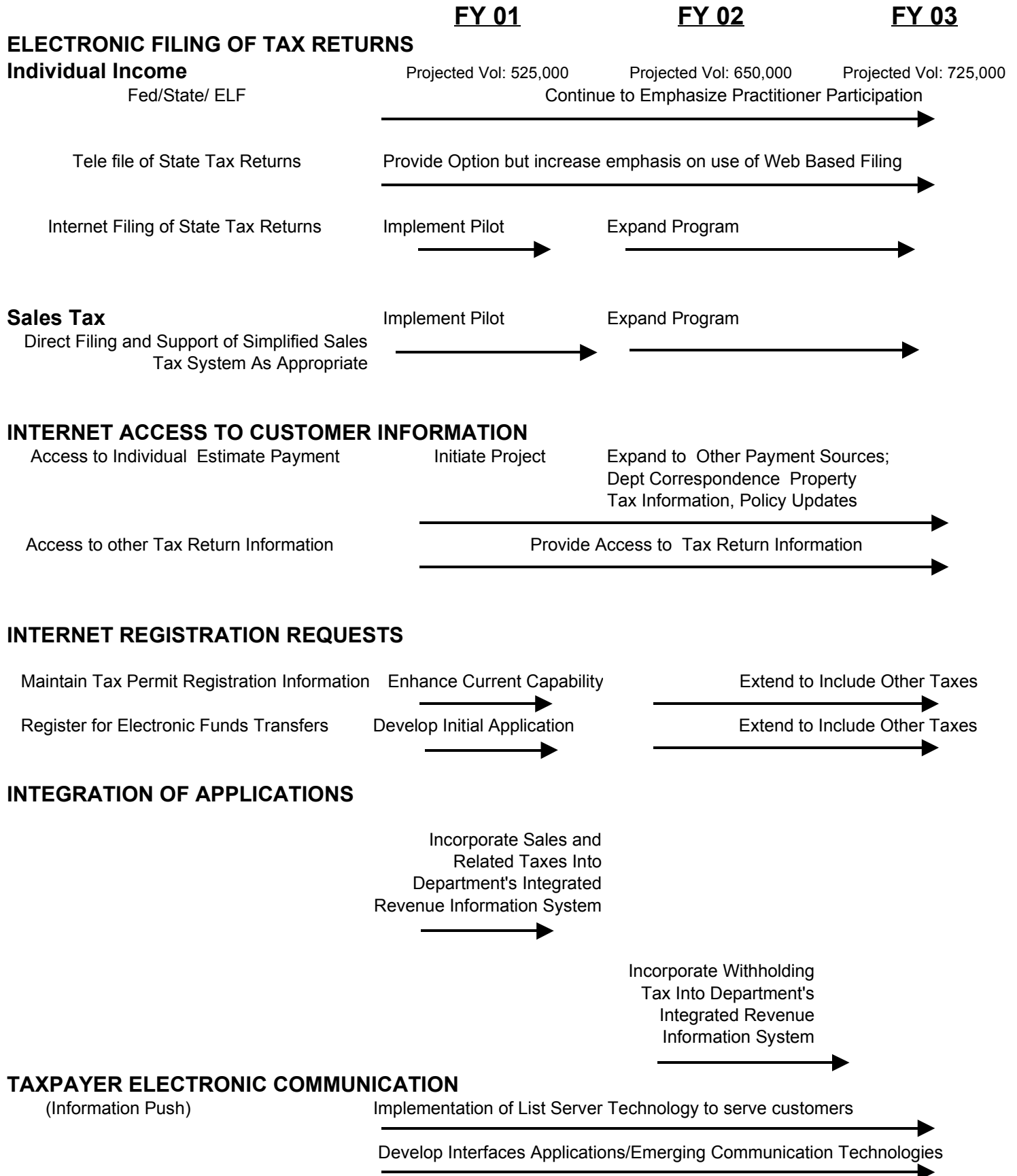
In the FY 02 proposal the department requests funding for the support of four important initiatives..
1. *Maintaining and Expanding Electronic Filing Alternatives for Individual Income Taxpayers*
2. *Providing Internet Access to Customer Information for Updating and Accessing Taxpayer Registration and Transactions*
3. *Providing Internet Filing for Sales/ Use Tax Filing*
4. *Completion of Integration of Withholding Tax into Integrated Revenue Information System*

Three of these directly relate to providing services via the Internet. The fourth recognizes that however valuable the creation of Internet service delivery may be, the enhancement of major tax processing systems is critical to department' s successful support of electronic tax administration. As each initiative is completed the agency will be designing and implementing where feasible opportunities for Iowans to conduct business.

The benefits of the service enhancements are defined throughout the report and include improvements in services, increased efficiency and reductions in costs for taxpayers to conduct with the agency. While various estimates of the benefits received may be completed, the documentation included beginning on page 18 indicate that perhaps as much as $5.0 million in hidden taxes could be avoided annually by reducing the costs that individuals and businesses encounter when conducting business with the department.

ELECTRONIC TAX ADMINISTRATION -- A LOOK TO THE FUTURE

	FY 01	FY 02	FY 03

ELECTRONIC FILING OF TAX RETURNS

Individual Income

Projected Vol: 525,000 — Projected Vol: 650,000 — Projected Vol: 725,000

Fed/State/ ELF — Continue to Emphasize Practitioner Participation →

Tele file of State Tax Returns — Provide Option but increase emphasis on use of Web Based Filing →

Internet Filing of State Tax Returns — Implement Pilot → — Expand Program →

Sales Tax

Direct Filing and Support of Simplified Sales Tax System As Appropriate — Implement Pilot → — Expand Program →

INTERNET ACCESS TO CUSTOMER INFORMATION

Access to Individual Estimate Payment — Initiate Project — Expand to Other Payment Sources; Dept Correspondence Property Tax Information, Policy Updates →

Access to other Tax Return Information — Provide Access to Tax Return Information →

INTERNET REGISTRATION REQUESTS

Maintain Tax Permit Registration Information — Enhance Current Capability → — Extend to Include Other Taxes →

Register for Electronic Funds Transfers — Develop Initial Application → — Extend to Include Other Taxes →

INTEGRATION OF APPLICATIONS

Incorporate Sales and Related Taxes Into Department's Integrated Revenue Information System →

Incorporate Withholding Tax Into Department's Integrated Revenue Information System →

TAXPAYER ELECTRONIC COMMUNICATION

(Information Push) — Implementation of List Server Technology to serve customers →

Develop Interfaces Applications/Emerging Communication Technologies →

What Is Being Proposed For FY 02?

The department's *Electronic Tax Administration* program is committed to four related projects. These include continuation of recent efforts to provide electronic services as well as the expansion of the service offerings into several areas specifically requested by the agency's customers.

A. *Maintaining and Expanding Electronic Filing Alternatives for Individual Income Taxpayers*

In calendar 2001 the department will be implementing the Internet based filing of individual income tax returns to accompany a three-year commitment to permit tele-filing of tax returns. The agency has established that a vendor provided solution is the most efficient way in which to offer this service. The department is requesting funding to continue and to expand the opportunities for direct electronic filing of tax returns in FY 02.

A successful marketing and deployment of these two technologies may result in 100,000 individual income tax returns being filed directly with the department. This would be in addition to nearly 550,000 returns that are expected to be filed under the "joint federal/state electronic" filing program. As a result, the department could receive over 45 percent of the tax year 2001 returns in an electronic format.

B. *Providing Internet Access to Customer Information for Updating and Accessing Taxpayer Registration and Transactions*

In FY 01, the department anticipates deploying several important interactive Internet applications. Building on the infrastructure and security model that will be developed for these applications the department intends in FY 02 to deploy additional opportunities for electronic access and filing.

While a variety of applications are anticipated each would be intended to provide one or more of the following services:

> *Permit taxpayers to remit taxes and to report taxes*
> *Provide taxpayers with access to information regarding their tax history or their responsibilities*
> *Create "fillable" forms for use by taxpayers to file forms when full web based filing is inappropriate*

Included in the list of applications that would be developed are the following:
1. **Current Refund Status-** Supplements current IVR technology which answers the question of "Where's My Refund." Even a modest reduction in the over 165,000 calls that are received would result in savings to the department's phone costs.
2. **Tax History Information-** Application will reduce need for manually handling calls and correspondence that request information on recent filings or payments.
3. **Tax Payments-** The department plans to add several additional opportunities for taxpayers to electronically register to have electronic fund transfers to be made to satisfy their obligation for making payments.
4. **Department Correspondence-** Application will allow taxpayers to "access or retrieve" correspondence that department has previously sent. In addition the application will permit the distribution of correspondence and billing notices electronically when desired by the customer.

5. **Property Tax Data Store-** This application is intended to support "comparative reviews" of assessments by County Assessors and property owners and to foster the understanding by Iowans of the property tax.
6. **Policy Updates** - Intended to allow agency to more effectively display information relevant to specific changes in policy and statute

With perhaps the largest "Customer Base" in state government (excess of 3 million) the volume of contacts the department receives for information is a substantial burden on department resources. By providing an electronic method for communication, the agency anticipates both improved customer service and improved efficiency. This access would of course reduce the volume of calls the agency must handle thereby allowing the department to dedicate staff to addressing other priorities.

During FY 01 the department intends to provide taxpayers with the opportunity to electronically request that the department debit specified amounts from their bank account for payment of estimated income taxes and final payments when the return is filed. This application is specifically designed to permit the agency to take advantage of the extensive experience that exists within the agency with electronic payment processing (EFT). The use of EFT, which results in the collection of over 50 percent of state taxes, appears to be a preferred method by many customers to submit payments to the agency. During FY 02 the department intends to offer several other "electronic payment" opportunities including sales tax, corporate income tax and other excise taxes.

In addition to the new opportunities to file returns via the Internet the department currently provides nearly 200 tax forms on the Internet. Many of the nearly 250,000 visits to the department web site are believed to be made to obtain tax forms. These forms require however, that the form be printed and then manually prepared and sent to the department. The department wishes to partner with the Department of Information Technology Services in the use of technology which is believed will rapidly expedite the deployment of forms that can be completed on the Internet. This technology produces what are known as "fillable" forms. By using an enterprise standard technology the state believes it can provide customers with the opportunity to on- line enter, calculate and complete many of the tax forms required by the state.

C. Providing Internet Filing for Sales/ Use Tax Filing
The department is anticipating that Internet filing for sales and use tax will be developed in 2001. There are however at least two ways in which this service can be delivered; vendor based or internally developed. In addition and critical to the design of the system is the degree to which the national project on sales tax filing simplification becomes a reality.

The department has received funding for design and deployment of some form of Internet based filing for sales tax returns. To allow for continuation of the service offering throughout the full year and to permit expansion to other filers the department is requesting approximately $150,000 in additional funds for FY 02. With over 100,000 retailers collecting and remitting taxes annually (nearly 800,000 payments and returns filed) the capability of the department to offer electronic forms of filing and remitting is critical to the department achieving efficiency and to improving customer satisfaction

D. Completion of Integration of Withholding Tax into Integrated Revenue Information System

In the past several years, the department has made the effort to improve the effectiveness of tax administration by providing for a centralized and integrated information system known as IRIS. By including withholding tax into IRIS the department will have completed the migration of all major tax sources from legacy applications into this new environment.

Benefits to the 80,000 withholding agents and to the agency include:
◊ Improved taxpayer correspondence and communication
◊ More accurate resolution of billings and refund claims
◊ Improved tracking of various "payroll" tax credits provided for economic development
◊ Reduction in system maintenance costs associated with maintaining an out- dated legacy information system.

In addition to the tangible benefits mentioned above, completion of the integration of withholding tax into IRIS will enable the agency to utilize one platform for interfacing with our customers through the Internet. This integration will provide the department with one location for customer requests made via the Internet to be received and processed. Further, since the customer is "registered" under a single identification number, it will be possible for a customer to make inquiries for information for multiple taxes using a single identification number and single Internet access.

This effort is estimated to require approximately 7,000 hours of application development. The department intends to provide approximately 60 percent of the project staff. Application development staff funding is requested to allow the timely completion of this initiative.

Why These Projects Now?

Simply stated, "Our customers are already asking for these services." For example, in 1999 when the department conducted a market research survey of over 1,000 Iowa businesses to determine our business customer's visions for future services, it was established that 70% of our business customers wanted 24X7 access to their account information. This included the ability to update their profile information and have access to past payment records.

With the projects begun in FY 01, the agency is firmly committed to building electronic filing and access opportunities for these customers. In addition the inclusion of specific applications into an integrated application has become a critical component of the agency's automation program. For example, the completion of the sales tax redesign being done in FY 01 is critical with the significant increase in local option tax reporting occurring as the result of the adoption of the tax in Polk and other counties.

At the same time that the agency is considering expansion of services, it is important to recognize that existing electronic forms of service should continue. In addition, providing a modern back-end infrastructure to allow for the continued expansion of services is critical. The request provides this support by providing resources necessary to complete construction within the department's Integrated Revenue Information System (IRIS) database of transaction data from nearly 800,000 withholding tax returns and remittances. With the inclusion of withholding tax data into IRIS, data from the four major revenue sources will be integrated in one database thereby allowing a single access point for electronic transactions.

Maintaining security of tax return information is also a key component of the initiative. More than most government organizations, the department must insure that data is secure during

transmission, while stored and when retrieved. The agency has committed substantial funds to building a secure network infrastructure that meets the IRS and state requirements. The proposal will insure the continuity of this security infrastructure as we conduct business electronically with our customers.

Finally, while taxpayers and local governments are the final customers for most of the agency's transactions, it is important that consideration be given to various partners the department has in tax administration. The collection of taxes and the filing of tax returns involve a variety of partners especially when considering what has been accomplished already in the delivery of electronic services. Whether it be tax preparers, software developers, the Internal Revenue Service, financial services companies and/or private vendors who are supporting existing applications, the building of new opportunities for electronic filing must consider the applications that currently exist. The success of these current technologies which currently results in the electronic filing of hundreds of thousands of income tax returns and electronic funds transfer of over $3.0 billion of state taxes results has resulted in the department focusing on this set of initial opportunities.

What Are The Benefits?

The agency supports one of the largest and most diverse customer sets within government. The customers include individual taxpayers that file a single individual income tax return each year, small and large businesses who file multiple tax returns and remit various tax payments up to 36 times a year and large multi-national or international corporations who prepare and submit taxes to all 50 states. In addition to the "taxpayer" the department's customers include professional tax preparers, Certified Public Accountants, software developers, small retailers and employers, multi-national corporations, financial institutions, tobacco manufacturers and local government officials.

In preparing to move the current services to electronic delivery, the agency has seriously considered the disparity of the customer base, the differences in their use of technology and the applicability of technology to assist these entities in meeting their reporting, payment and access responsibilities. The effort builds on the department's previously mentioned study of our business tax customers who identified a number of electronic services they wish to have placed in the highest priority. These included:

- ✓ Provide access 24 /7 for individuals to their history of tax payments and registration information
- ✓ A single location for registration activity to occur
- ✓ Automatic confirmation of transactions as received
- ✓ Providing automatic reminders of filing requirements
- ✓ Update information provided electronically
- ✓ Filing and remitting taxes electronically

The list of ways in which other customers can benefit from the electronic service delivery is extensive. With over 4 million documents filed and $5.0 billion of tax payments remitted annually the department has extensive customer contact. In addition, over 175,000 customers find it necessary to contact the department via phone to obtain information and assistance. While the use of the Internet for information delivery has been a strong component of the agency's program for information delivery, there is room for more proactive information distribution. Utilizing electronic communications the agency believes it can expand this service.

While the improvements proposed have certain intangible benefits to our customers, the department recognizes that tangible benefits exist if the agency is able to move into electronic service delivery. Benefits to taxpayers include:

- Reduced cost in preparing the return
- Reduced cost in resulting correspondence
- Reduced cost due to penalty and interest from incorrectly remitted taxes
- Expanded access to government services
- Improved capability to deliver reliable and timely distribution of local option taxes collected for local governments

Numerous benefits would also accrue to the department. These include:

- Improved processes for capturing and processing tax data
- Reduction in errors occurring in processing of tax data and payments
- Increased employee satisfaction resulting from use of more progressive methods of service delivery and from greater customer satisfaction
- Reduction in certain administrative costs if postage and printing of correspondence and forms can occur as result of electronic service delivery
- Building an integrated information system in conjunction with development of electronic delivery methods allows the agency to migrate from existing single paper based technology to multiple technologies without adversely affecting customers
- Increased speed and reduction in errors in depositing of state tax funds
- Improving the department's platform on which withholding tax is processed is necessary if the agency is going to meet the customer's demand for timely return processing and payment deposits. This customer expectation will accelerate as Internet access to the customer records is provided.

SECTION 2: PROJECT PLAN *SEE NEXT PAGE*

Individual project plans will vary depending upon the size and complexity of the project. A project plan includes the following information:

1. Agency Information

Project Executive Sponsor Responsibilities: Identify, in Section I, the executive who is the sponsor of the project.   The sponsor must have the authority to ensure that adequate resources are available for the entire project, that there is commitment and support for the project, and that the organization will achieve successful project implementation.

Organization Skills: Identify the skills that are necessary for successful project implementation.   Identify which of these skills are available within the agency and the source(s) and acquisition plan for the skills that are lacking.

2. Project Information

Mission, Goals, Objectives: The project plan should clearly demonstrate that the project has developed from an idea to a detailed plan of action.   The project plan must link the project to an agency's mission, goals, and objectives and define project objectives and how they will be reached.   The project plan should include the following:

A. **Expectations**:   A description of the purpose or reason that the effort is being undertaken and the results that are anticipated.

B. **Measures**: A description of the set of beliefs, tradeoffs and philosophies that govern the results of the project and their attainment.   How is the project to be judged or valued?   What criteria will be used to determine if the project is successful?   What happens if the project fails?

C. **Environment:** Who will provide input (e.g., businesses, other agencies, and citizens) into the development of the solution?   Are others creating similar or related projects? Are there cooperation opportunities?

D. **Project Management and Risk Mitigation:**   A description of how you plan to manage the project budget, project scope, vendors, contracts and business process change (if applicable). Describe how you plan to mitigate project risk.

E. **Security / Data Integrity / Data Accuracy / Information Privacy:** A   description   of the security requirements of the project?   How will these requirements be integrated into the project and tested. What measures will be taken to insure data integrity, data accuracy and information privacy?

Section 2 Project Plan

1. Agency Information - Director Gerald Bair is the <u>Executive Sponsor</u>; The department's management team has committed to the outlined activities as one of the key initiatives of the agency.

<u>**Organization Skills -**</u>
The agency has a long standing commitment to electronic commerce as demonstrated by the emphasis placed on the joint federal/state electronic filing program, the reliance on electronic funds transfer for payments and the utilization of the web as means of information dissemination. The department believes this project requires seven key organizational skills in order to be successful. With previous projects as well as the Internet initiatives being completed in FY 01 the department believes it has the resources and skills discussed below.

   a) <u>Management Commitment</u>- The department senior management has adopted Electronic Tax Administration as a key component of the agency strategic plan.
   b) <u>Customer Identification </u>- Through the planning process that has occurred, the customer surveys mentioned previously, the lessons learned from providing current electronic services and the success and failures of projects in other state tax departments, the agency believes it has a strong understanding of what will be accepted.
   c) <u>Project Management</u> - The agency has senior staff who have experience in managing large technology projects.
   d) <u>Technical Project Management</u>- Plan includes contracting for development of infrastructure will be contracted with knowledge transfer required to allow continuation of the development in latter phases. Technical project management for application development will be provided by senior application technical managers who are on staff.
   e) <u>Application Development and Data Base Designs</u>- Plan includes a mix of department and consultant staff which will be used depending on the technology.
   f) <u>Security and Hardware Design and Deployment </u>- Current contract staff assisted by those with advanced technical experience will complete the security model and its deployment. Hardware design and installation will occur primarily with existing staff.

2. Project Information - Project has developed from several years of planning and groundwork with customers. It is believed that by viewing the project as containing four interrelated components that a clear understanding of the justification can be achieved.

> ***A. Maintaining and Expanding Electronic Filing Alternatives for Individual Income Taxpayers***
> ***B. Providing Internet Access to Customer Information for Updating and Accessing Taxpayer Registration and Transactions***
> ***C. Providing Internet Filing for Sales/ Use Tax Filing***
> ***D. Completion of Integration of Withholding Tax into Integrated Revenue Information System***

To achieve success in these areas requires the department to in effect manage several projects with different technologies. However, we believe that support of these technology projects should be considered jointly as they each target different forms of electronic access to department tax services.

Centralized Project Management- Management of the projects will be centralized within the department's Internal Resource Management Division, which is the primary source of technology support within the agency. Since the projects will affect the level of services delivered by the Compliance and State Financial Management Divisions, a project oversight team will be created. Key managers from the affected operations and technical support areas will staff this team. The project director and staff will be expected to provide a detailed project plan for completion of each phase and projection of resource requirements (including staffing and technology acquisitions). These planning documents will be completed once project funding is established and priorities established based on available resources.

The project office will be expected to provide regular updates of forecasts and identification of issues that need resolution. These revisions will be discussed periodically (no less than quarterly) with the Project Oversight Team and the Director. Such reports and discussions will be accessible to the ITD project office and the department will welcome input into this process.

Risk Avoidance -Avoiding of risks in technology planning is a key component of successful project deployment. The agency has the advantage of having completed in recent years several successful projects of similar scope. First and foremost is the planning and management of the current initiatives in similar areas, which are to be completed during FY 01. In addition, in previous years the department has successfully managed such major projects as development of various phases of the IRIS information system, the automation of 13 field offices, the deployment of current network and desktop technologies using highly structured methodology and the completion of Y2K compliance testing. In each of these areas the department has applied tested project management practices and has developed within the organization, the skills and understanding of the necessity of effective project management.

Risk avoidance can be avoided by using skilled contract resources to address the technical issues that will arise for the first time in this area. The department has extensive experience in managing technical resources under contract and approaches the use of these resources only on "an as needed" basis. However, the department recognizes that evaluation of when to use outside resources should be made on the basis of "the value added" and not simply on cost of the service. We intend to continue to use this philosophy of partnering with the best service provider available when it adds value to the project.

Data Security- Security of data is a key requirement for the department. As indicated, the project consists of several initiatives and thus a portion of the security requirements are met by a security model, which is already in place (i.e. mainframe applications security). As to other security requirements, the department has a well-recognized commitment to insuring the security of data and applications. As an example, the agency has gone to the effort to establish an independent firewall with supporting hardware and software and will soon be supporting data encryption for its WAN traffic to meet the state and federal confidentiality requirements under which the department operates. This security will be enhanced perhaps further than in most state agencies as we will install additional filters or security levels between the mainframe, the web server and the Internet. The project requests funding for completing a security model design which insures the confidentiality and integrity of the application and the data.

3. Current Technology Environment

Software --

Mainframe -- IDMS software including ADSO and Cobol DML

Network/Client Server - The department has a complete inventory of all software, which consists of nearly 100 software programs. However, since the department standards are based on Microsoft's operating and application suites most of this software is special use and outside the parameters of this project.

Hardware –

Mainframe -- ITD mainframe, connectivity from desktop provided via SNA gateways with planned migration to TN 3270
Department's mainframe applications interface to a great deal with each other, however, due to the nature of applications there are limited data interfaces with other agency applications.

Network -- 10 mg Ethernet With Frame Relay For Wide Area Network connectivity
Novell 5.0 and NT 4.0
Exchange 5.5
SQL 7.0 being introduced for database development

Dial-in access provided to selected field users using CISCO 3640

Novell Border Manager Firewall

Desktop Standard Win 95; IBM PIII is current desktop configuration

Proposed Environment

Environment described above will be augment by acquisition of additional licenses for SQL 7.0 and Internet Development tools including Visual InterDev and Microsoft Transaction Server.

Security software necessary to augment the project are unknown but anticipated. Recommendations from consulting phase will form basis for additional security software.

New applications will require interface to mainframe information system known as IRIS. Centralization of mainframe processing will thereby limit the number of interfaces required to the Internet server, data base server and mainframe.

Data Elements –

Data elements required for each initiative are extensive. As indicated, a portion of data is maintained in IDMS database on mainframe with other tax systems. Agency is committed to utilization of SQL Server for other databases development.

SECTION 3: Return on Investment (ROI) Financial Analysis

Project Budget:
Costs shown in this section are total project costs. Department intends to contribute approximately 40% of project costs as described below

Provide the estimated project cost by expense category.

```
Personnel ............................... $ 1,067,500
Software ................................. $     12,500
Hardware................................ $     20,000
Training ................................. $     35,000
Facilities ................................ $
Professional Services............. $   270,000
Supplies ................................ $
Other (Specify)……………… $_____
                  Total ........ $ 1,405,000
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Project Funding:

Provide the estimated project cost by funding source.

State Funds............................. $ 1,405,000	100	% of total cost
Federal Funds .... $_____ ...._____		% of total cost
Local Gov. Funds .... $_____ ...._____		% of total cost
Private Funds .... $_____ ...._____		% of total cost
Other Funds (Specify) .... $_____ ...._____		% of total cost
Total Cost:................ $_____ ...._____		% of total cost

How much of the cost would be incurred by your agency
from normal operating budgets (staff, equipment, etc.)? .... $ 558,500
.... 40%

How much of the cost would be paid by "requested IT project funding"? .. $846,500
.... 60%

Provide the estimated project cost by fiscal year FY02_____ $1.4 million _

ROI Financial Worksheet Directions (Attach Written Detail as Requested):

Annual Pre-Project Cost -- Quantify, in written detail, all actual State government direct and indirect costs (personnel, support, equipment, etc.) associated with the activity, system or process prior to project implementation. This section should be completed only if State Government costs are expected to be reduced as a result of project implementation.

Annual Post-Project Cost -- Quantify, in written detail, all estimated State government direct and indirect costs associated with activity, system or process after project implementation. This section should be completed only if State government costs are expected to be reduced as a result of project implementation.

State Government Benefit -- Subtract the total "Annual Post-Project Cost" from the total "Annual Pre-Project Cost." This section should be completed only if State government costs are expected to be reduced as a result of project implementation.

> As indicated on the attached worksheet, the department has estimated that the agency may experience a reduction in certain costs. The agency would intend to invest these savings in improved customer service. It appears that the direct expenditure reduction that could occur will be approximately $ 200,000. These savings are expected to occur as the result of reductions in costs in several areas including:
>
> ✓ Reduction in data entry costs as result of increased use of electronically filed returns,
> ✓ Reduction in staff effort required for resolution of error returns as the result of improved accuracy associated with returns that are submitted electronically,
> ✓ Reduction in volume of phone calls received requesting information due to the availability of taxpayers to obtain information directly from the internet.

Citizen Benefit -- Quantify, in written detail the estimated annual value of the project to Iowa citizens. This includes the "hard cost" value of avoiding expenses (hidden taxes) related to conducting business with State government. These expenses may be of a personal or business nature. They could be related to transportation, the time expended on or waiting for the manual processing of governmental paperwork such as licenses or applications, taking time off work, mailing, or other similar expenses.

> The department has estimated under one set of assumptions that the changes proposed for funding in FY 02 have the opportunity to reduce by at least $ 5.0 million the cost taxpayers incur in doing business with the department. The cost reductions estimated to occur are associated with
> > ✓ Reductions in costs incurred by taxpayers for paid tax assistance in the preparation of income tax returns as the result of the availability of direct electronic filing,
> > ✓ The avoidance by taxpayers of the costs associated with obtaining information from the agency
> > ✓ Elimination of certain "business costs" associated with preparation of sales tax returns.

Opportunity Value/Risk or Loss Avoidance Benefit -- Quantify, in written detail the estimated annual benefit to Iowa citizens or to State government. This could include such items as qualifying for additional matching funds, avoiding the loss of matching funds, avoiding program penalties/sanctions or interest charges, avoiding risks to health/security/safety, avoiding the

consequences of not complying with State or federal laws, providing enhanced services, avoiding the consequences of not complying with enterprise technology standards, etc.

One benefit of the program is to enhance the efficiency with which deposits of state funds are made. While a specific estimate is not available it is known that reductions in the time taken to deposit funds will produce an increase in interest by the state.(see paragraph C –3 on page 19.)

Total Annual Project Benefit -- Add the values of all annual benefit categories.

Estimated to be least $5,200,000 in annual benefits.

Total Annual Project Cost –- Quantify, in written detail, the estimated annual new cost necessary to implement and maintain the project including consulting fees, equipment retirement, ongoing expenses (i.e. labor, etc.), other technology (hardware, software and development), and any other specifically identifiable project related expense. In general, to calculate the annual hardware cost, divide the hardware and associated costs by three (3), the useful life. In general, to calculate the annual software cost, divide the software and associated costs by four (4), the useful life. This may require assigning consulting fees to hardware cost or to software cost. A different useful life may be used if it can be documented.

Estimated cost of $1.4 million of which department is prepared to commit 40%. Request for funds is therefore for $846,500-See table below and worksheet on page 13.

Benefit / Cost Ratio – Divide the "Total Annual Project Benefit" by the "Total Annual Project Cost." If the resulting figure is greater than one (1.00), then the annual project benefits exceed the annual project cost. If the resulting figure is less than one (1.00), then the annual project benefits are less than the annual project cost.

Estimated at 14.80--See table below

ROI -- Subtract the "Total Annual Project Cost" from the "Total Annual Project Benefit" and divide by the amount of the project funds requested.

Estimated at 573%-See table below

	Calculation of Annual Costs Per Formula		
	Total Costs	Factor	Annual Cost
Personnel	$1,067,500		
Software	$12,500		
Hardware	$20,000		
Training	$35,000		
Facilities			
Professional Services	$270,000		
Supplies			
Other (Specify)			
Total	$1,405,000	4	$351,250
Department Provided Resources	$558,500	40%	
Requested Funds	$846,500	60%	
Total Funds	$1,405,000	100%	
Benefit/ cost Ratio			
Benefit	$5,200,000	14.80	
Annual Costs	$351,250		
Total Costs			
ROI =(Benefit- Annual Cost)	$4,848,750	573%	
Requested Funds	$846,500		

Benefits Not Cost Related or Quantifiable -- List the project benefits and articulate, in written detail, why they (IT innovation, unique system application, utilization of new technology, hidden taxes, improving the quality of life, reducing the government hassle factor, meeting a strategic goal, etc.) are not cost related or quantifiable. Rate the importance of these benefits on a "1 – 10" basis, with "10" being of highest importance. Check the "Benefits Not Cost Related or Quantifiable" box in the applicable row.

As listed below there are a number of benefits that are expected that cannot be directly quantifiable. These are described in greater detail in paragraph E on page 21. If the items were to be "rated" on their importance it would seem that each would rate a minimum of 7 on a 10 point scale.

- ✓ Improved processes for capturing and processing withholding tax –
- ✓ Reduction in errors occurring in processing of tax data and payments-
- ✓ Increased employee satisfaction resulting from use of more progressive methods of service delivery and from greater customer satisfaction-
- ✓ Reduction in certain administrative costs if postage and printing of correspondence and forms can occur as result of electronic service delivery-
- ✓ Building an integrated information system
- ✓ More rapid activity and less errors in depositing of state tax funds

ROI Financial Worksheet

Annual Pre-Project Cost - How You Perform The Function(s) Now

FTE Cost (salary plus benefits):		
Support Cost (i.e. office supplies, telephone, pagers, travel, etc.):		
Other Cost (expense items other than FTEs & support costs, i.e. indirect costs if applicable, etc.):		
A. Total Annual Pre-Project Cost:		

Annual Post-Project Cost – How You Propose to Perform the Function(s)

FTE Cost:		
Support Cost (i.e. office supplies, telephone, pagers, travel, etc.):		
Other Cost (expense items other than FTEs & support costs, i.e. indirect costs if applicable, etc.):		
B. Total Annual Post-Project Cost:		
State Government Benefit (= A-B):	$200,000	**Intended to be redirected to improved Service-see attached summary**

Annual Benefit Summary

State Government Benefit:	$200,000	**Intended to be redirected to improved Service**
Citizen Benefit (including quantifiable "hidden taxes"):	$5,000,000	**Estimated $5.0 million in cost avoidance for taxpayers**
Opportunity Value and Risk/Loss Avoidance Benefit:		**See attached comments**
C. Total Annual Project Benefit:	$5,200,000	**Estimated benefits expected to exceed $5.2 M**
D. Total Annual Project Cost:	$351,250	
Benefit / Cost Ratio (C / D):	14.8	
ROI (C – D / Project Funds Requested):	573%	

X Benefits Not Cost Related or Quantifiable (including non-quantifiable "hidden taxes") (at present time) – See page 21

Addendum to ROI Financial Analysis Worksheet

The benefits expected with continuation of the _Electronic Tax Administration_ program include:

➢ Reduced costs for taxpayers and tax professionals who take advantage of electronic services;
➢ Improvements in efficiency of some department operations permitting a reinvestment of savings in improved services; and
➢ Increase in customer satisfaction as result of improvement in department services.

C-1- _State Government Benefit:_
Overview- With the expansion of electronic services the department does expect to see a reduction in activity required in certain manual processes such as data entry or payment processing. Further, it is assumed that returns filed electronically will, after an initial period, require less review once received. Finally, the availability of electronic services which allow taxpayers to obtain information electronically will reduce the number of taxpayers who contact the agency and require staff time for assistance.

Initially, these applications are expected to have a modest utilization. The savings from these reductions in costs are needed to offset the costs of supporting the service and to fund expansion of the service in subsequent years. It appears that the direct expenditure reduction that could occur will be approximately $ 200,000. These savings are expected to occur as the result of reductions in costs in several areas including:
✓ Reduction in data entry costs as result of increased use of electronically filed returns,
✓ Reduction in staff effort required for resolution of error returns as the result of improved accuracy associated with returns that are submitted electronically,
✓ Reduction in volume of phone calls received requesting information due to the availability of taxpayers to obtain information directly from the internet.

The majority of the benefit associated with reduction in volumes of paper returns or taxpayer contacts is expected to be reflected in an increase in the department's ability to provide services. For example, any shift of taxpayer inquires from phone or written correspondence will mean the agency will be able to address the calls from taxpayers that currently cannot reach the department during its busiest times. Further, the increased use of electronic filed returns and the presence of withholding tax in the integrated applications of the agency will allow agency staff to more quickly access the information which is delayed during peak processing periods.

The indirect savings mentioned above will be the result of several factors and are discussed in greater detail in Section E- "Costs not Quantifiable"

C-2- _Citizen Benefit_
The department has estimated under one set of assumptions that the changes proposed for funding in FY 02 have the opportunity to reduce by at least $ 5.0 million the cost taxpayers incur. While other estimates are possible the projection demonstrates the magnitude of the benefits that might be expected.

The cost reductions estimated to occur are associated with

- ✓ Reductions in costs incurred by taxpayers for paid tax assistance in the preparation of income tax returns as the result of the availability of direct electronic filing,
- ✓ The avoidance by taxpayers of the costs associated with obtaining information from the agency
- ✓ Elimination of certain "business costs" associated with preparation of sales tax returns.

Whatever the cost savings are initially, the important factor is that these savings will be on-going resulting in the cost for doing "tax business" for Iowans continuing to be reduced as the use of the electronic services expands.

In addition to the estimated savings it is important to recognize that there are a number of other areas where benefits for customers will receive benefits.

- ◆ ***Reduced cost in resulting correspondence***- Taxpayers currently incur costs in a variety of ways in order to communicate with the agency. These include the costs for creation of correspondence, staff time for phoning the agency and postage. The internet services will not only result in a reduction in costs for filing of returns but will reduce the correspondence needed to maintain tax registrations.
- ◆ ***Reduced cost due to penalty and interest from incorrectly remitted taxes***- A primary advantage of Internet filing applications is that the taxpayer is assisted by a computer application in the completion of the tax return. Errors are detected prior to submission rather than after the return is processed by the agency. Access to payment or deposit information will also be a primary factor in reducing taxpayer errors which result in the misapplication of prior payments when computing the amount due on a quarterly return. Since most Iowans wish to pay the amount of taxes they owe, the correct determination of tax liability at time of filing will result in a reduction in penalty and late interest charges.
- ◆ ***Reduced cost in preparing the return***- The department recognizes that if information is readily available regarding prior transactions that taxpayers will expend less time and effort in completing a return. The projects have as a principal objective making prior tax information and registration data available 24X7.
- ◆ ***Expanded access to government services***- Placing a value on the availability of information and filing options is difficult to complete. However, as the Internet service delivery model expands from the financial sector to retail and finally to government this service will no longer be thought of a as an alternative. Rather as government strives to become more efficient, taxpayers will be become more reliant on "off hours access." To meet this demand, it is critical that government find a way in which to provide both information and service options on a 24x 7 basis.

***C-3- Opportunity Value/Risk or Loss Avoidance Benefi*t** -- There are no direct funding streams (such as grants) that are affected by the decision to proceed with this application development. Perhaps one of the more tangible yet difficult to estimate effects is the possibility of increased interest revenue from the department completing certain deposit activities more rapidly.

Using one set of assumptions and estimates as to possible participation it is possible to project the possible increase in interest that will occur as the result of reducing the time it takes for funds to be deposited. For example, the initiative begun in FY 01 to allow for electronic deposits of individual estimated taxes has the potential of reducing the time

required to complete depositing of some portion of over $ 300 million in estimated individual income taxes. If deposits of one- third of the funds could be accelerated by only one day the state would receive at least $20,000 of interest revenues. Similar experiences would occur with other tax sources resulting in increases in revenue to the state.

Delays in the application development will result in Iowans continuing to find alternative means to conduct business electronically with the state. Many of these methods require the department to expend resources to support the connectivity or interface of the application to department information systems. As a result we have found that by taking a leadership position in working with the private sector the agency can positively impact the way in which electronic services are designed. As an example, the agency has found that by being an active participant it has been able to affect the direction of electronic filing services developed by Iowa and other states in areas such as electronic filing on income tax returns and the collection of state and federal debt.

As a state agency with a diverse and extensive customer base, it is equally important that the department play a leadership position in developments within state government. These applications offer the agency the opportunity to develop the skills while continuing the active partnership with the Information Technology Department and other agencies in planning and deploying successful electronic initiatives which aid the state's customers.

D- Annual Project Costs and Return on Investment-- The annual costs of the application are expected to be absorbed in the technology resources of the agency or additional funding will be requested if needed for areas such as support of vendor provided solutions. This decision depends greatly on the success the agency has with vendor provided solutions in areas of Internet filing of income tax returns.

The annual costs are calculated according to the formula provided and are estimated at $351,250. When the costs are compared to the estimated benefit of $5.2 million the benefit to cost ratio is approximately 14.8 to 1.

It is important to recognize that since the department is contributing approximately 40% of the program costs the Return on Investment is significantly greater than if the request was being made for the total amount of the program. The result is that this initiative if funded will produce a Return on Investment of the funds provided by the Pooled Technology Account of 573 percent.

	Calculation of Annual Costs Per Formula		
	Total Costs	Factor	Annual Cost
Personnel	$1,067,500		
Software	$12,500		
Hardware	$20,000		
Training	$35,000		
Facilities			
Professional Services	$270,000		
Supplies			
Other (Specify)			
Total	$1,405,000	4	$351,250
Department Provided Resources	$558,500	40%	
Requested Funds	$846,500	60%	
Total Funds	$1,405,000	100%	

Benefit/ cost Ratio		
Benefit	$5,200,000	14.80
Annual Costs	$351,250	
Total Costs		
ROI (Benefit- Annual Cost)/Requested Funds	$4,848,750	573%
	$846,500	

E- Costs Not Quantifiable

♦ *Improved processes for capturing and processing withholding tax -* As indicated the agency has developed in recent years an integration of its previously standalone information systems. This integration offers advantages in terms of processing of returns and resolution of taxpayer errors. In addition, since the new applications reflect the current modern way of return processing, it is expected that staff efficiency will increase as the result of elimination of the need for many staff to be familiar with a second and somewhat obsolete application.

♦ *Reduction in errors occurring in processing of tax data and payments-* Reductions will occur from fewer taxpayer errors, particularly as the result of the internet filing of tax returns and the taxpayers access to previous filing history. This will reduce the time required for processing withholding returns / payments.

♦ *Increased employee satisfaction resulting from use of more progressive methods of service delivery and from greater customer satisfaction-* The department continues to strive to provide employees with satisfaction through modernizing the tools they must use. In addition, since many of our employees have direct customer contact, the benefits that are going to be experienced by our customers will to some degree be reflected back to our employees through customer feedback. Simply stated, modernization will have both direct and indirect influences on the level of employee satisfaction.

♦ **Reduction in certain administrative costs if postage and printing of correspondence and forms can occur as result of electronic service delivery-** As indicated, error reduction and direct taxpayer access to records are tangible benefits of these initiatives. It is assumed, that a reduction will occur in the correspondence that must be sent as the result of errors or billings. Similarly a reduction in requests for information that currently require the department to generate a response is expected.

♦ *Building an integrated information system-* in conjunction with development of electronic delivery methods the project allows the agency to migrate from existing single paper based technology to multiple technologies without adversely affecting customer. The IRIS application that is being developed to host the data for the various tax systems is designed to allow multiple forms of input into a common repository of applications and data bases. Currently data from electronically filed returns, electronic payments, outside data entry services and several other sources are "taken in" to this integrated application through a common intake process. Using this common intake with the proposed Internet applications will add efficiency and reduce maintenance costs versus standalone applications.

♦ *More rapid activity and less errors in depositing of state tax funds-* With over $5 billion in taxes paid and over 500,000 payments made each year the potential for improvements in deposit activities are substantial if only 10% of those eligible take advantage of the opportunity. The extension of these opportunities to other taxes following a completion of a successful pilot with the income tax will simply expand the range of benefits that are possible.